City of Detroit

CITY COUNCIL

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ANNE MARIE LANGAN
DEPUTY DIRECTOR
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TO: COUNCIL MEMBERS

FROM: Irvin Corley, Jr., Director IC

DATE: October 13, 2009

RE: Resolution authorizing the issuance and sale of not to exceed $94,160,000 City of Detroit Tax Anticipation Notes Series 2009 ©
(Recommend Approval)

The Finance Department wants to issue $94.16 million in Tax Anticipation Notes (TANs) to address the City's precarious cash position. Based on responses to my questions on the TANs (see attached), I provide the following report.

<u>Level of Past Short-Term Borrowings</u>

In 2005, the City issued $54.4 million in Revenue Anticipation Notes (RANs) to address cash flow needs. In 2006, $125.2 million in RANs and TANS were issued. In 2007, $129.4 million in RANs and TANs were issued. And, in 2008, $129.6 million in RANs and TANs were issued.

<u>2009 Short-Term Borrowings</u>

During fiscal 2009, the City issued $127.4 million in RANs in April 2009. These RANs, with interest expense of about $5.7 million, are due on March 1, 2010.

During June 2009, the City issued $46.5 million in TANs Series 2009A, which with interest expense of $246,000 were due on October 1, 2009. These TANs were paid off on October 1st.

Also in June, the City issued $49.8 million in TANs Series 2009B, which with interest expense of $973,000, are due on March 1, 2009.

So, the City issued in total $223.7 million in RANs and TANs during fiscal year 2009. The trend of issuing larger amounts of RANs and TANs indicates a weakening cash position.

Now, the Finance Department wants to issue up to $94.16 million in TANs to address cash flow needs in the current fiscal year. The plan is to issue $45 million in November 2009 to essentially replenish the cash used to pay off the TANs due on October 1st. The remaining $49.16 million would be issued probably in March 2010, which is the time of the year the City has been using short-term borrowing to meet cash flow needs through the end of the fiscal year, or by June 30th. The TANs would be due at the most 12 months from date of issuance.

It should be noted that the entire $94.16 million TANs might be issued in November if market conditions are favorable. Finance feels the City could save on interest expense and issuance costs if the TANs are sold directly via private placement to an investor versus issuing them in the traditional short-borrowing market. However, the resolution before Council allows Finance to explore both methods to ensure the City is minimizing cost. The resolution also first pledges property taxes, which will be collected during the next fiscal year, and secondly pledges income taxes to cure any short fall in property taxes.

It is also important to note that Finance plans to issue approximately $120 million in RANs also in March 2010. If approved by Council, the level of RANs and TANs would be $214 million for fiscal year 2010; still a high number indicating cash flow weakness.

The City's Current Cash Flow Problem

If at least $45 million TANs are not sold in November 2009, the City faces a cash short fall of approximately $19 million, and would have to find other means to address this short fall or run out of cash, and the City faces payless paydays.

What is troubling about this scenario is that if Council approves the TANs sale, the monies would be used essentially to pay off another short-term borrowing. That is like opening up one credit card to pay off an existing one; surely, a sign of serious cash flow weakness. In addition, these TANs would be sold in November, which is to my knowledge since 2005, the earliest time short-term borrowing notes would be sold during the fiscal year. In the past, the short-term borrowing was done primarily during the last quarter of the fiscal year.

It is disturbing that the City has to now consider selling short-term notes to help address its cash flow needs earlier in the fiscal year, or in the second quarter. This would be fine if the notes were paid off in the same fiscal year since it is a routine practice to sell short-term notes during a year for cash flow purposes when a municipality or school district know it is getting cash receipts later in the fiscal year to pay off the short-term borrowing instruments. In other words, sometimes it is prudent to sell short-term notes when the timing of revenue receipts do not match evenly with expenditures; so the monies are borrowed from the anticipated receipts to smooth out the matching of receipts with expenditures in the same fiscal period.

But in the City's case, we are now looking to borrow short-term money earlier in the fiscal year that would be paid off from anticipated receipts during the next fiscal year. On this basis alone, I am tempted to recommend disapproval of these TANs. But I also recognize the City is facing the following issues:

City of Detroit's Cash Flow Challenges

1. Continual decline in major general fund revenues, especially state revenue sharing and income tax revenue, as the City faces an $80 million operating revenue shortfall in the current fiscal year. Now casino wagering taxes are steadily declining. As pointed out by Mayor Bing's Crisis Turnaround Team, casino wagering taxes are now pledged as collateral for Pension Obligation Certificates payments under the interest rate swap agreements, and are not available for other debt restructuring or negotiations to reduce liabilities.

2. Not realizing full savings from cost-cutting measures, such as wage concessions, layoffs, DDOT bus route elimination or reduction, and contractual cutbacks due to the timing of these initiatives during the fiscal year. In other words, the longer it takes for the measures to be implemented in the fiscal year, the less savings realized for the fiscal year.

3. The City's continual reliance on other one-time stop gap measures, such as a tunnel deal-$40 million and collections from old receivables-$3 million, in addition to short-term borrowing, to avoid running out of cash by June 30, 2010. It is important to note that Finance assumes $50 million to be raised by the tunnel deal and other revenue enhancements in June in order for the City to not run out of cash. Any DTE escrow deal to raise $27 million and the possibility of raising $900,000 to $2 million from an Airport management contract would help to infuse cash; but again one-time measures.

4. The City can no longer temporarily divert property tax collections owed to other taxing jurisdictions to help with its cash flow position. In regards to pension payments, the City has been fortunate to delay pension payments at times of cash crisis, but it is at a cost, because any repayments include interest based on the assumed rate of return for the pension systems (i.e., 7.9% for General and 7.5% for Police and Fire pension systems, respectively). Unfortunately, however, the City faces making a large pension payment in June.

Conclusion

Since the City of Detroit continues to face severe budgetary and cash flow problems, and it needs more time to implement revenue enhancement and cost-cutting measures, much that has been recently recommended by Mayor Bing's Crisis Turnaround Team, the City unfortunately is still in the stressful position of borrowing cash on a short-term basis to avoid cash short falls and payless pay days, even if it means borrowing earlier in the fiscal year and using the following year's revenue receipts to pay off the short-term borrowing notes.

But it is a real fact: the City will not be able to maintain a sufficient cash flow if it does not make the necessary changes to eliminate the deficit, which is approximately $300 million, and possibly growing, if something is not done soon to address it. The City's dilemma is that any cost-cutting measures implemented this fiscal year may still be dwarfed by continual revenue short falls.

Going forward, annual operating budgets must balance, or the City faces more reliance on short-term cash borrowing and greater accumulated deficits.

Recommendation

Based on the above analysis, I reluctantly recommend approval of the resolution authoring the issuance of up to $94.16 million in TANs to help the City's cash flow situation.

I also recommend that the Finance Department report back to the City Council the results of the TANs sale in November 2009 to report whether the department sold a part of the $94.16 million authorization or all of it. If the remaining part of the sale is to take place at a later date, such as in March 2010, then the Finance Department should report to the Council the amount of the sale and provide Fiscal Analysis the opportunity to review an updated cash flow statement to understand the impact of the sale on the City's cash flow needs. A resolution has been provided for Council's consideration to codify the Finance Department's reporting to Council of the TANs sale(s). Mr. Norman White, Chief Financial Officer, has agreed to giving reports to your Honorable Body on the TANs sale(s).

cc: Council Divisions
Auditor General's Office
Norman White, Chief Financial Officer/Group Executive
Donita Crumpler, Manager II-Finance
Pamela Scales, Budget Director
Kamau Marable, Mayor's Office

Attachment-Finance Department's responses to Fiscal's questions on the proposed $94.16 million TAN sale.

ICJ:I\CORLEY\$94.16 Million Tax Anticipation Notes Series 2009 ©,doc

BY COUNCIL MEMBER______________________________________

Whereas The Detroit City Council has authorized the sale of not to exceed $94 Million in Tax Anticipation Notes Series C to help address the City's cash flow needs; and

Whereas The director of the Finance Department may choose to only sale a portion of the Tax Anticipation Note authorization in November 2009 the remaining portion at a later date; Now Be It

Resolved That the director of the Finance Department report back to the City Council the results of the November 2009 Tax Anticipation Note sale; and Now Be It Finally

Resolved That the director of the Finance Department report back to the City Council the results of the sale of any remaining portion of the Tax Anticipation Notes Series C authorization conducted at a date later than November 2009, and provide the City Council's Fiscal Analysis Division an opportunity to review an updated cash flow statement to understand the import of the sale regarding the City's cash flow needs.

City of Detroit
Finance Department
Administration

#4

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TO: Irvin Corley, Director, Council Fiscal Analysis

FROM: Norman White, Group Executive for Finance NW

DATE: October 2, 2009

RE: Resolution authorizing the issuance and sale of not to exceed $94,160,000 City of Detroit Tax Anticipation Notes, Series 2009 (C)

Irvin, below are the answers to your questions.

1. City Council and the Fiscal Analysis Division require the cash flow projection to understand need for the $94.16 million TAN. If Council doesn't approve this TAN, when would the City run out of cash? Does the City still need the 10% wage concession from the unions and a large number of layoffs to stave off running out of cash this fiscal year? Does the projected cash flow assume the City receiving the $27 million from the DTE escrow account? If the $27 million is received, will the City need to borrow the full $94 million on a short-term basis?

Answer – See attachment 1.

2. Fiscal Analysis Division needs the worksheet showing calculation/ability to issue $94.16 million in TANs supported by income taxes, including the statutory limits on borrowing.

Answer – Attached please find a spreadsheet that outlines the statutory limits on TAN borrowing. Also please reference Section 3 of the resolution. The City expects only to issue $45 million of the total authorized amount this year and the remaining in spring of 2010. Because of the fluid nature of the City's cash flow and municipal market realities, the resolution authorizes the City to issue the entire $94.16 million at one time or in multiple transactions.

3. Related to question 2, what portion if any of income tax collections is already pledged in the current fiscal year for short-term borrowing? Specify the specific sale and amount pledged.

Answer – The Tax Anticipation Notes, Series 2009 (A) and (B) and Tax Anticipation Notes, Series 2009 (C) pledge property and income taxes. The income taxes will only be needed if there is a deficiency in the property tax set aside account. We do not anticipate using any income taxes to satisfy the set aside requirement.

10-5-09 Received At Table

4. Similarly to the last "TAN" sale, does the Administration plan to market this TAN with a private borrower, or negotiated sale rather than the open market? If so, please provide projected cost of borrowing fees, interest rate and debt service schedule. Explain the rational for selection of the method of sale.

Answer –The City is exploring a private placement with a financial institution. Chase Bank purchased the Tax Anticipation Notes, Series 2009(A) and (B). The interest rate on that transaction was generated by multiplying the product of Chase's internal cost of funds (approximated by the LIBOR index) plus 250 basis points by 67%. This formula resulted in an interest rate of 2.05% on the Tax Anticipation Notes, Series 2009 (A) due October 1, 2009 and an interest rate of 2.56% on the Tax Anticipation Notes, Series 2009 (B) due April 1, 2010 both completed in June. For comparison purposes the Revenue Anticipation Notes, Series 2009 issued in April and due on March 1, 2010 had an interest rate of 4.00%.

For illustrative purposes we have assumed a maturity date for the Tax Anticipation Notes, Series 2009 (C) of November 1, 2010 (maximum maturity length authorized by the resolution). We have attached a spreadsheet with the projected cost of borrowing fees, interest rate and debt service schedule (information as of September 14, 2009).

The resolution offers flexibility to use a private placement or negotiated sale based on the method that is most likely to be successful and generate the most attractive interest rate.

5. Please provide the Official Statement's of the last RAN and TAN sales.

Answer – The Revenue Anticipation Note, Series 2009 official statement is attached. There was no official statement (or offering document) for the Tax Anticipation Notes, Series 2009 (A) and (B) because the notes were privately placed.

6. Last fiscal year, a RAN and a TAN were issued within two months of each other, to the tune of $230 million, which appears to be the maximum the City can borrow from the RANs/TANs in any given fiscal year. If Council approves this TAN, does the Administration project any additional RAN/TAN sales by the end of this fiscal year? If yes, what is the projected timing and amounts of additional RAN/TAN sales during the current fiscal year?

Answer – The City would, by passage of this resolution, be authorized to issue $94.16 million in TANS pledging taxes from the 2010/11 fiscal year. Currently we expect to issue $45 million this year and the remaining portion in the spring of 2010. However, should it be possible to issue all of the notes at one time at attractive interest rates that route may be taken. In that case, the City would not issue additional TANs.

The maximum amount of Revenue Anticipation Notes that the City can issue, in compliance with both the Act 34 Revenue Note Test and the Subordinate Obligations Coverage Test, if applicable, is based upon the lesser of (i) 50% of the Distributable State Aid receipts in the prior completed fiscal year and (ii) 50% of the average annual receipts of Distributable State Aid for the past 36 months. Last year the City issued $127,375,000 in RANs. The City expects to issue the full authorized amount of RANs in spring of 2010.

7. Moody's listed the usage of short-term borrowing as problematic for the City. Could the approval of the TAN lead to another downgrade, especially since major adjustments to the budget haven't taken place yet?

Answer – Moody's has commented that the need to borrow is created by the City's deficit. Thus the deficit is the driver and, because the City must borrow in order to provide for operations it is at risk. This concern is reflected in Moody's current rating. The administration does not anticipate that the Tax Anticipation Notes, Series 2009 (C) will cause an additional downgrade.

8. Detail the amount of sale, issuance fees and interest expense for each of the short-term borrowings related to the current fiscal year, including this sale.

Answer – Attached please find a spreadsheet that details the Revenue Anticipation Notes, Series 2009, Tax Anticipation Notes, Series 2009 (A) and (B) and the estimated information for the Tax Anticipation Notes, Series 2009 (C).

cc: Council Members
Council Divisions
Pamela Scales, Budget Director
Donita Crumpler, Manager II-Finance
Kamau Marable, Mayor's Office

DRAFT
PLANNING DOCUMENT

:ity of Detroit
.nnual Cash Forecast
uly 1, 2009 to June 30, 2010
.ctual Balances Thru October 2, 2009

Description	Total Jul 2009	Total Aug 2009	Total Sep 2009	Forecasted Total Oct 2009	Forecasted Total Nov 2009
:ash Balance Beginning	107,469,947	52,970,063	139,803,762	90,259,481	22,049,710
roperty Tax	44,578,920	291,319,921	58,462,366	12,930,126	5,983,437
ias & Wt Taxes	4,543,425	4,812,935	4,950,535	4,912,896	5,541,189
etroit Inc. Tax	17,340,000	17,085,000	17,830,000	16,564,824	16,685,759
tility users Tax	2,436,962	3,452,402	391,896	3,325,553	3,472,244
ist. State Aid	32,841,138	-	32,313,289	24,958,920	39,984,350
asinos/Wagering tax	13,541,013	13,671,381	13,604,592	13,007,652	20,413,748
evenue Initiatives	-	-	-	-	-
ote Proceeds - RANs	-	-	-	-	-
ote Proceeds - TANs	-	-	-	-	-
'ther Borrowing	-	-	-	-	-
iscal Stabilization Bonds	-	-	-	-	-
ash Held by Trustee U.S. Bank for Debt Service	1,970,214	-	-	49,307,948	-
ash Held for Payment SWAPs/POCs	16,172,587	13,002,422	26,606,422	13,373,214	20,413,748
ash Held in Debt Service Sinking Fund	50,000	99,323	14,713,070	13,653,933	-
lisc. Receipts	21,796,636	29,225,525	21,672,194	46,413,921	47,406,772
otal Receipts	155,270,895	372,668,909	190,544,364	198,448,987	159,901,247
ayroll Expense	(26,330,491)	(18,766,450)	(16,442,711)	(22,310,286)	(19,648,384)
'/H Payments	(27,151,287)	(22,867,347)	(22,347,873)	(23,316,598)	(19,000,000)
mp. Ben Plan (7500)	(22,557,594)	(20,722,945)	(14,661,086)	(21,900,000)	(21,900,000)
ubsidies DOT (5301)	(5,000,000)	(5,850,000)	(6,000,000)	(13,286,203)	(5,508,602)
IT Refunds	(2,548,836)	(1,641,817)	(1,074,606)	(2,757,058)	(1,000,000)
ebt Service	(2,020,214)	(99,323)	(27,197,314)	(19,580,573)	(3,503,616)
ote Debt Service - RANs		-	-	-	-
ote Debt Service - TANs		-	-	(49,307,948)	-
ther Borrowing Debt Service		-	-	-	-
SA & Taxes Transferred to Trustee for Debt Service	(37,956,703)	(41,335,921)	(35,169,751)	(2,348,693)	(41,643,202)
asino Revenue transferred to Trustee for SWAP/POCs	(21,863,842)	(17,832,796)	(17,766,007)	(17,169,067)	(24,575,163)
isc. Disbursement	(64,341,813)	(156,718,609)	(92,877,451)	(89,553,461)	(60,978,903)
ension Contribution- General		-	(3,691,292)	(2,520,816)	(876,341)
ension Contribution- P&F******		-	(2,860,555)	(2,608,054)	(2,599,702)
ension Contribution- P.O.C.		-	-	-	-
otal Disbursements	(209,770,780)	(285,835,209)	(240,088,646)	(266,658,758)	(201,233,913)
nding Cash Balance	52,970,063	139,803,762	90,259,481	22,049,710	(19,282,956)

CITY OF DETROIT, MICHIGAN

Estimated Property Taxes Available to Pledge for FY 2010 Debt Service

As Budgeted for FY 2010 [1]

FY 2010 General Fund Property Tax Receipts[1]:	$188,329,267	
50% of Operating Levy (Max Amt of TANS - Par Plus Premium):	$94,164,634	
Par Amount of TAN 2009C:	$45,000,000	
Estimated Interest Rate:	2.51%	
Estimated Debt Service of TAN 2009C:	$46,145,188	(2)

(1) Total General Fund property tax receipts as budgeted for FY 2010.

(2) Dated date of November 1, 2009 and maturity date of November 1, 2010.

City of Detroit, Michigan

Tax Anticipation Notes, Series 2009C

Dated: November 1, 2009

Preliminary Structuring Numbers

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Report

City of Detroit, Michigan

Tax Anticipation Notes, Series 2009C

Dated: November 1, 2009

Preliminary Structuring Numbers

Sources & Uses

Dated 11/01/2009 | Delivered 11/01/2009

SOURCES OF FUNDS	
Par Amount of Bonds	$45,000,000.00
TOTAL SOURCES	**$45,000,000.00**

USES OF FUNDS	
Estimated Deposit to Project Fund	44,917,200.00
Estimated Costs of Issuance	82,800.00
TOTAL USES	**$45,000,000.00**

City of Detroit, Michigan

Tax Anticipation Notes, Series 2009C

Dated: November 1, 2009

Preliminary Structuring Numbers

Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I
11/01/2009	-	-	-	-
11/01/2010	45,000,000.00	2.510%	1,145,187.50	46,145,187.50
Total	**$45,000,000.00**	-	**$1,145,187.50**	**$46,145,187.50**

Yield Statistics

Bond Year Dollars	$45,000.00
Average Life	1.000 Years
Average Coupon	2.5448611%
Net Interest Cost (NIC)	2.5448611%
True Interest Cost (TIC)	2.5288731%
Bond Yield for Arbitrage Purposes	2.5288731%
All Inclusive Cost (AIC)	2.7154572%

IRS Form 8038

Net Interest Cost	2.5448611%
Weighted Average Maturity	1.000 Years

OFFICIAL STATEMENT DATED APRIL 3, 2009

NEW ISSUE
(Book-Entry-Only)

RATING: *S&P – "SP-1+"*
(See "RATINGS" herein)

In the opinion of Miller, Canfield, Paddock and Stone, P.L.C., Detroit, Michigan ("Note Counsel"), under existing law, assuming compliance with certain covenants by the City of Detroit, the interest on the Notes (as defined below) is excludable from gross income for federal income tax purposes and the Notes and interest thereon are exempt from all taxation in the State of Michigan except inheritance and estate taxes, and taxes on gains realized from the sale, payment or other disposition thereof. See "TAX MATTERS" and "FORM OF NOTE COUNSEL OPINION" herein for a description of certain provisions of the Internal Revenue Code of 1986, as amended, which may affect the tax treatment of interest on the Notes for certain Noteholders.

$127,375,000
CITY OF DETROIT, MICHIGAN
Revenue Anticipation Notes, Series 2009

Dated: Date of Delivery | **Due: March 1, 2010**
Interest Rate: 5.00% | **Price: 100.864%** | **Yield: 4.00%**

The Revenue Anticipation Notes, Series 2009 (the "Notes") of the City of Detroit (the "City"), Michigan (the "State" or "Michigan") will bear interest from their dated date at the rate set forth above. Principal of and interest on the Notes are payable at maturity. **The Notes are not subject to redemption prior to maturity.**

The Notes will be issued as fully registered Notes and, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Notes. Purchases of beneficial ownership interests in the Notes will be made in book-entry-only form in denominations of $5,000 and integral multiples thereof. Purchasers will not receive certificates representing their ownership interests in the Notes purchased. So long as DTC or its nominee, Cede & Co., is the registered owner of the Notes, principal of and interest on the Notes will be paid directly to DTC by U.S. Bank National Association, Detroit, Michigan, as transfer agent ("Transfer Agent"). Disbursement of payments to the DTC participants is the responsibility of DTC, and disbursements of payments to the beneficial owners is the responsibility of the DTC Participants. See "DESCRIPTION OF THE NOTES – Book-Entry-Only System" herein. The Notes are being issued pursuant to Act 34, Public Acts of Michigan, 2001, as amended, a resolution adopted by the City Council of the City on December 9, 2008, and a sale order of the City's Finance Director dated April 3, 2009, to pay necessary operating expenditures of the City in the current fiscal year ending June 30, 2009, and costs of issuance of the Notes. The Notes are issued in anticipation of certain shared revenue payments the City expects to receive from the State under the provisions of the Glenn Steil State Revenue Sharing Act, Act 140, Public Acts of Michigan, 1971, as amended (the "State Shared Revenues") in the succeeding fiscal year ending June 30, 2010. State Shared Revenues, derived from a statewide sales tax, currently constitute the only source of distributable state aid under the Michigan Municipal Distributable Aid Bond Act, Act 97, Public Acts of Michigan, 1981, as amended ("Distributable Aid"). The Notes are secured on a subordinate basis by a pledge of Distributable Aid. To the extent that Distributable Aid is insufficient to pay the principal of and interest on the Notes, the City pledges to make such payments as a first budget obligation of the City from the proceeds of annual *ad valorem* property taxes which must, to the extent necessary, be levied on all taxable property within the boundaries of the City, subject to applicable charter, statutory and constitutional tax rate limitations. The City is currently levying taxes at the maximum rate provided by law. See "SECURITY FOR THE NOTES – Revenue Sharing and Distributable Aid" and "–First Budget Obligation of the City" herein.

This cover page contains information for quick reference only. It is not a summary for this issue. Investors should read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Notes are offered when, as and if issued by the City and accepted by the Underwriter (as defined herein), subject to prior sale, withdrawal or modification of the offer without notice, and to approval of legality of the Notes by Note Counsel. Certain legal matters will be passed upon for the Underwriter by their counsel Butzel Long, a professional corporation, Detroit, Michigan. The Notes are expected to be available for delivery in book-entry form through the facilities of DTC on or about April 8, 2009.

MORGAN STANLEY | **LOOP CAPITAL MARKETS, LLC**

Dated: April 3, 2009

City of Detroit
Summary of 2009 Short-Term Borrowings

	Actual			Estimated
	RAN 2009	TAN 2009A	TAN 2009B	TAN 2009C
Par Amount	$127,375,000	$46,450,000	$49,770,000	$45,000,000
Interest Expense	$5,705,702	$245,991	$973,280	$1,145,188
Total Debt Service	$133,080,702	$46,695,991	$50,743,280	$46,145,188
Issuance Fees	$687,304	$85,067	$91,147	$82,800
	due 3/1st 2010	due 10/1st 2009	due 3/1st 2010	would be due 10/1st 2010